COMPANY UPDATE

Tenaga Nasional (TNB MK)

A Glimpse Of Renewable Energy Potential In Australia

A recent visit to a Sydney solar farm suggests ample opportunity to grow RE capacity as Australia embarks on aggressive targets (82% RE mix by 2030). Separately, we believe TNB's 1H25 net profit may see a healthy growth of 5-8% yoy in the absence of tax provisions arising from the recent court ruling. Importantly, we continue to expect an interim DPS of at least 25 sen/share in 1H25 (1H24: 25 sen/share), which will signal robust underlying cash flow. Maintain BUY with a DCF-based target price of RM16.30.

WHAT'S NEW

- **Spark Renewables: Tenaga's RE portfolio Down Under…** We came away from a recent site visit in Australia more sanguine on Tenaga Nasional's (Tenaga) international renewable energy (RE) pipeline. A visit to wholly-owned subsidiary Spark Renewables in Sydney last week highlighted that Australia is embarking on an aggressive RE transition target of 82% by 2030 (2024: 38%). This is expected to unlock multi-year opportunities in RE development (in wind and solar technology) and transmission capex. Spark Renewables currently owns a 120MW Bomen Solar Farm in Wagga Wagga in New South Wales. This plant has been in operation since 2000, accommodating 310,000 solar panels to power up to 36,000 houses annually.
- **…with aggressive 2GW of future RE developments.** In addition, Spark Renewables is currently developing up to 2GW of greenfield RE projects across New South Wales. Key priority projects include: a) 1,000MW Dinawan Energy Hub in New South Wales; b) 400MW Mallee Wind Farm; and c) 600MW Wattle Creek Energy Hub. This will help to boost Tenaga's RE targets. To recap, Tenaga currently commands an established RE portfolio of 4.3GW (52% of target), with an additional 6.2GW in the pipeline – a good split between domestic initiatives and international portfolio (domestic: 3.3GW, international: 1.0GW).
- **A stronger 2Q25.** We expect Tenaga to grow 1H25 net profit by 5-8% yoy. This implies that: a) there are potentially no provisions to be made in 2Q25 for the income tax ruling setback a month ago – amounting to RM7b over 2003-24 for 67,000 projects; and b) positive Regulatory Period 4 outcome – where regulated capex is higher by 29%. We also expect Tenaga to dish out an interim DPS of 25 sen/share (similar to 1H25) in its upcoming quarterly results – this is likely a reflection of its strong cashflow. Recall that Tenaga is currently pursuing 2002-24 reinvestment allowance under Section 7B (from Section 7A), as suggested by the court ruling.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	63,665	56,737	59,022	61,616	64,286
EBITDA	17,840	20,542	21,450	22,171	22,866
Operating profit	6,574	9,309	9,949	10,723	11,468
Net profit (rep./act.)	2,770	4,699	4,666	4,988	5,315
Net profit (adj.)	3,735	4,329	4,666	4,988	5,315
EPS (sen)	65.7	76.1	82.1	87.7	93.5
PE (x)	21.0	18.1	17.3	16.2	15.2
P/B (x)	1.3	1.3	1.3	1.3	1.2
EV/EBITDA (x)	6.7	5.6	5.6	5.3	5.1
Dividend yield (%)	3.3	3.7	3.7	3.8	4.1
Net margin (%)	4.4	8.3	7.9	8.1	8.3
Net debt/(cash) to equity (%)	72.0	62.6	65.3	59.5	53.9
Interest cover (x)	4.7	5.9	5.6	5.3	5.1
ROE (%)	4.7	7.9	7.6	7.9	8.3
Consensus net profit			4,710	5,017	5,295
UOBKH/Consensus (x)			0.97	0.98	0.98

Source: Tenaga Nasional Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM13.76
Target Price	RM16.30
Upside	18.5%

COMPANY DESCRIPTION

Generates and distributes electricity in Peninsular Malaysia and Sabah.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	TNB MK
Shares issued (m):	5,812.9
Market cap (RMm):	80,209.0
Market cap (US$m):	18,934.2
3-mth avg daily t'over (US$m):	27.5

Price Performance (%)

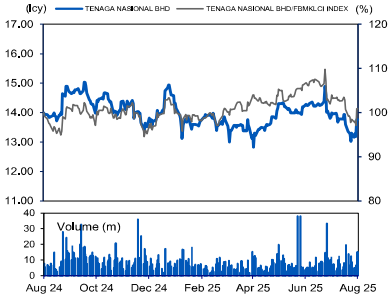
52-week high/low RM15.24/RM12.6

1mth	3mth	6mth	1yr	YTD
(0.3)	(2.8)	1.6	0.9	(7.9)

Major Shareholders	%
EPF	18.7
Khazanah Nasional	18.1
Amanah Saham Nasional	12.3

FY25 NAV/Share (RM)	10.92
FY25 Net Debt/Share (RM)	7.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **RM7b net tax bill in dispute.** To recap, Tenaga is facing a RM7b net tax bill after the Federal Court ruling setback for the year assessment of 2003-2024. The dispute arose when Income Revenue Board (IRB) disallowed TNB's claim under Schedule 7A of the Investment Tax Allowance (ITA) on the basis that the generation, distribution and transmission of electricity did not constitute manufacturing of electricity. It said TNB should actually have been considered a utility company under Schedule 7B of the Income Tax Act 1967 (ITA).
- **Tenaga's course of action includes engagement with authorities.** We expect a decision to be made by the end of this month. We understand the group is working with relevant authorities to seek approval for submission under Section 7B. Importantly, based on tax experts and legal opinion, Tenaga may have a strong case to submit its case under Section 7B.
- **Strong cashflow under AFA.** While automatic fuel adjustment (AFA) is neutral to Tenaga's earnings, it is positive on a cash flow basis, as collection period from the government and/or consumers will shorten and cash conversion rates will decline for the group. In the longer run, we believe this will pave the way for a higher dividend payout (Tenaga's current dividend payout is 40-60% of normalised net profit). Tenaga also offers good core earnings visibility from Regulatory Period 4 (three-year earnings CAGR of 7%).

EARNINGS REVISION/RISK

- Earnings revision: None.
- Key risks include: a) lumpy and unprofitable overseas RE projects, and b) forex risk to operating cashflow.

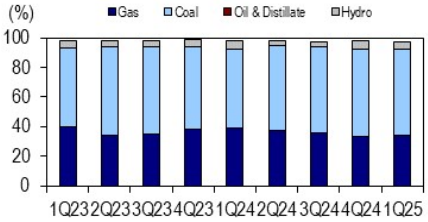
VALUATION/RECOMMENDATION

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). We recently lowered the equity risk premium on the stock (from 8.2% to 7.8%) to reflect tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 17.3x 2025F EPS, +2SD above five-year mean PE.
- **Key re-rating catalysts** include: a) giving TNB the autonomy to change electricity prices by 7% without seeking Cabinet approval every six months, b) recognition of contingent capex in the 2026-27 earnings window; c) listing of a profitable genco and/or RE division, and d) earnings-accretive M&As.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

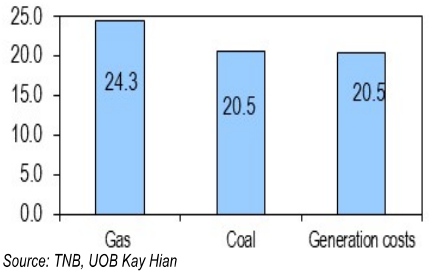
• **Environmental**
- Besides targeting 8,300MW in RE generation capacity by 2025 (1.9x from 4,3MW in Dec 24), TNB has also made pledges for 35% emission intensity reduction by 2035 and achieve net zero emission on top of being coal-free by 2050.
- Its 2024 initiatives include: a) planting a total of 49,214 trees, sequestering about 1,900 tCO2e, b) commissioning 64.09MWp of rooftop solar and c) added 54 new EVs for its fleet electrification process.
• **Social**
- In 2024, TNB donated: a) RM0.5m to 962 underprivileged families, b) RM0.7m of school supplies benefitting 6,640 students, c) RM40m for lighting up 14,210 units of village streetlights, and d) over RM59m for the development and resettlement of 243 orang asli households.
• **Governance**
- Good company transparency along with an anti-bribery and whistle-blowing policy.

GENERATION MIX



Source: TNB, UOB Kay Hian

GENERATION UNIT COST (1Q25)



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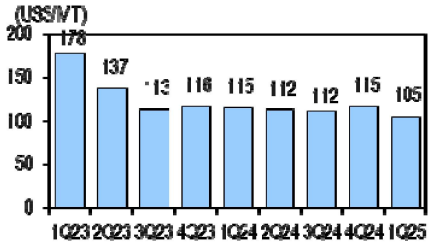
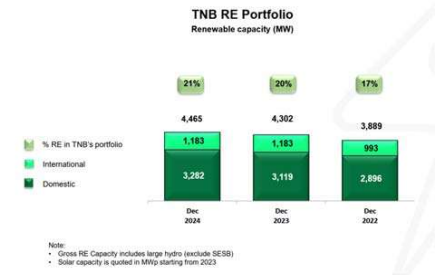
QUARTERLY COAL PRICES



Source: TNB, UOB Kay Hian

MILESTONES ACHIEVED ON RE



Source: TNB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**56,737**	**59,022**	**61,616**	**64,286**
EBITDA	20,542	21,450	22,171	22,866
Deprec. & amort.	11,232	11,501	11,448	11,399
EBIT	9,309	9,949	10,723	11,468
Total other non-operating income	-25	0	0	0
Associate contributions	108	113	119	124
Net interest income/(expense)	-3,469	-3,799	-4,150	-4,464
Pre-tax profit	**5,815**	**6,263**	**6,692**	**7,129**
Tax	-1,085	-1,566	-1,673	-1,782
Minorities	-31	-31	-31	-31
Net profit	**4,699**	**4,666**	**4,988**	**5,315**
Net profit (adj.)	4,329	4,666	4,988	5,315

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	125,611	124,977	124,396	123,864
Other LT assets	39,137	39,250	39,368	39,493
Cash/ST investment	19,601	16,619	18,848	21,137
Other current assets	20,707	21,247	21,859	22,490
Total assets	**205,056**	**202,092**	**204,471**	**206,983**
ST debt	6,276	6,176	6,076	5,976
Other current liabilities	27,693	23,131	23,689	24,279
LT debt	51,131	51,031	50,931	50,831
Other LT liabilities	57,387	57,387	57,387	57,387
Shareholders' equity	60,371	62,137	64,128	66,218
Minority interest	2,199	2,230	2,261	2,292
Total liabilities & equity	**205,056**	**202,092**	**204,471**	**206,983**

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**22,447**	**14,784**	**20,442**	**21,044**
Pre-tax profit	815	6,263	6,692	7,129
Tax	0	-1,566	-1,673	-1,782
Deprec. & amort.	11,232	11,501	11,448	11,399
Associates	-108	-113	-119	-124
Working capital changes	0	-5,101	-55	-40
Non-cash items	0	0	0	0
Other operating cashflows	10,508	3,799	4,150	4,464
Investing	**-11,595**	**-10,273**	**-10,286**	**-10,212**
Capex (growth)	-11,264	-10,867	-10,867	-10,867
Investments	0	0	0	0
Others	-331	593	581	655
Financing	**-12,752**	**-7,493**	**-7,928**	**-8,544**
Dividend payments	-2,900	-2,900	-2,997	-3,225
Issue of shares	201	0	0	0
Proceeds from borrowings	-4,364	-200	-200	-200
Others/interest paid	-5,689	-4,393	-4,731	-5,119
Net cash inflow (outflow)	**-1,900**	**-2,982**	**2,229**	**2,289**
Beginning cash & cash equivalent	**17,225**	**15,369**	**12,386**	**14,615**
Changes due to forex impact	43	0	0	0
Ending cash & cash equivalent	**15,369**	**12,386**	**14,615**	**16,905**

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	36.2	36.3	36.0	35.6
Pre-tax margin	10.2	10.6	10.9	11.1
Net margin	8.3	7.9	8.1	8.3
ROA	2.3	2.3	2.5	2.6
ROE	7.9	7.6	7.9	8.3
Growth				
Turnover	(10.9)	4.0	4.4	8.9
EBITDA	15.1	4.4	3.4	6.6
Pre-tax profit	72.4	7.7	6.9	13.8
Net profit	69.6	(0.7)	6.9	13.9
Net profit (adj.)	15.9	7.8	6.9	6.6
EPS	15.9	7.8	6.9	13.9
Leverage				
Debt to total capital	91.7	88.9	85.9	82.9
Debt to equity	95.1	92.1	88.9	85.8
Net debt/(cash) to equity	62.6	65.3	59.5	53.9
Interest cover (x)	5.9	5.6	5.3	5.1

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